PHILIP MORRIS USA INTER-OFFICE CORRESPONDENCE
120 PARK AVENUE, NEW YORK, NY 10017-5592

TO: Distribution DATE: May 14, 1996

FROM: Market Information / Bruce Neidle

SUBJECT: Nielsen Retail Pricing Update - w/e 4/27/96

PRICE INCREASE SUMMARY

During the third week following early April's manufacturer list price increases, a partial pass through was evident in c-stores with Marlboro and the Lowest Discount brand average gross pack prices increasing +4¢ and +3¢, respectively. The final pass through amount (including wholesaler and retailer mark-up) is expected to be about 5-6¢ per pack.

- To date, 46% of c-stores have implemented at least full pass through of the list price increase. This is fairly consistent with the full pass through rate during the third week following the 1995 price increase.
- 29% of c-stores implemented an above expected price increase (of at least 7¢ per pack), with an average increase of 15¢ per pack. This is also fairly consistent with the 1995 manufacturer list price increases in which 24% of c-stores took an average increase of 13¢ per pack during week 3.

GENERAL SUMMARY

Marlboro (-16) and Basic (-13) single pack money-off incidence declined from peak MBSS levels.

- Marlboro's price disadvantage (≥10¢) with Winston and Newport increased this week while it was stable against Camel.
- Basic's price disadvantage with the Lowest Discount brand increased +4 points to 70% of c-stores.

MANUFACTURER LIST PRICE INCREASES

- A partial pass through of the early April manufacturer list price increases ($2.00/M) was evident at retail this week. In c-stores, Marlboro and the Lowest Discount brand average **gross** pack prices increased +4¢ and +3¢, respectively versus a pre-increase base period (4wks ending 3/9/96).
  - Since the increase, the percent of c-stores with a Marlboro gross pack price ≥ $2.00 expanded +4 points to 43%.

PRICE INCREASE SUMMARY
C-STORES
As of W/E 4/27/96

	Pre-Increase Base Period	Post-Increase To-Date	Difference Post vs. Pre
Average **Gross** Pack Prices/Gaps			
Marlboro Price	$1.96	$2.00	$0.04
Lowest Discount Price	$1.41	$1.44	$0.03
$ Gap	$0.55	$0.56	$0.01
% Gap	39%	39%	0%
% Stores above $2.00 Threshold	39%	43%	4%
% Volume above $2.00 Threshold	35%	40%	5%

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Source: https://www.industrydocuments.ucsf.edu/docs/mrcy0004

MANUFACTURER LIST PRICE INCREASES (CONT.)

- To date, Marlboro experienced at least a full pass through (+4¢ a pack or greater) of the list price increase in 46% of c-stores. An additional 7% of c-stores implemented a partial pass through, while 47% showed no price increase. Full pass through of the price increase was most prevalent in Region 2 and Rural geographies.
  - Among c-stores with more than a full pass through (greater than 6¢), the average increase was 15¢. Prior to the price increase the average pack price in these stores was $1.91, while following the increase the average price was $2.06.

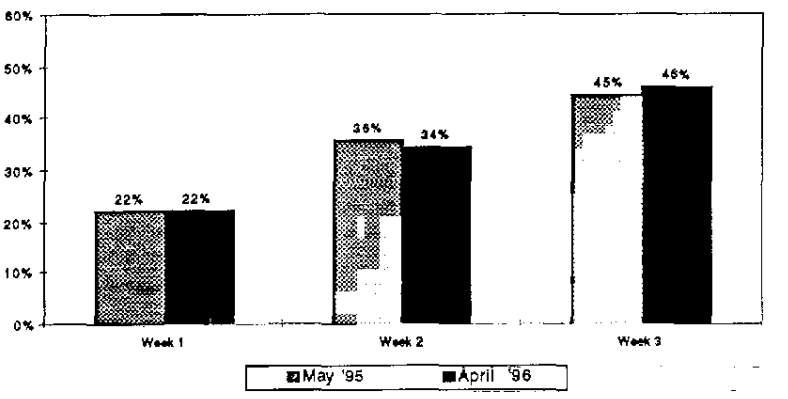
GROSS PACK PRICE CHANGE
INDEXED C-STORE PROFILE
WEEK ENDING 4/27/96

	No Increase	Partial (2¢-3¢)	Full (4¢-6¢)	More Than Full(7+¢)
% OF STORES	47%	7%	17%	29%
REGION				
1	106	99	102	92
2	92	77	119	110
3	83	149	94	122
4	113	104	101	80
5	120	67	77	92
RETAIL MASTERS STATUS				
Non Master	116	94	106	74
Non Exclusive RM	94	91	99	114
Exclusive RM	93	133	94	109
GEOGRAPHY				
Rural	87	103	126	107
Suburban	96	96	99	125
Urban	110	107	92	88
OWNER				
Chain	100	106	95	103
Independent	100	74	117	98
Store Size				
Small	101	87	113	96
Large	100	114	82	109
Sells Gas				
No	103	125	86	100
Yes	100	94	103	102

i.e. A disproportionately high percent of c-stores with a full pass-through of the price increase were located in Region 2 (SDI=119).

- Three weeks following PM's list price increase, 46% of c-stores experienced at least full pass through. This was fairly consistent with the pass through rate during the third week following May 1995's list price increase.

C-STORES WITH FULL PASS THROUGH OF MANUFACTURERS LIST PRICE INCREASE - MAY 1995 VS APRIL 1996



Note: May '95 full pass through = +3¢ or greater April '96 full pass through = +4¢ or greater

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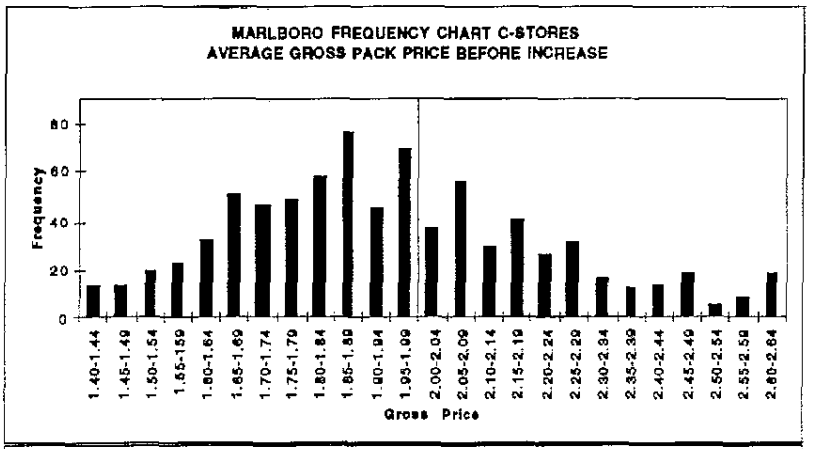
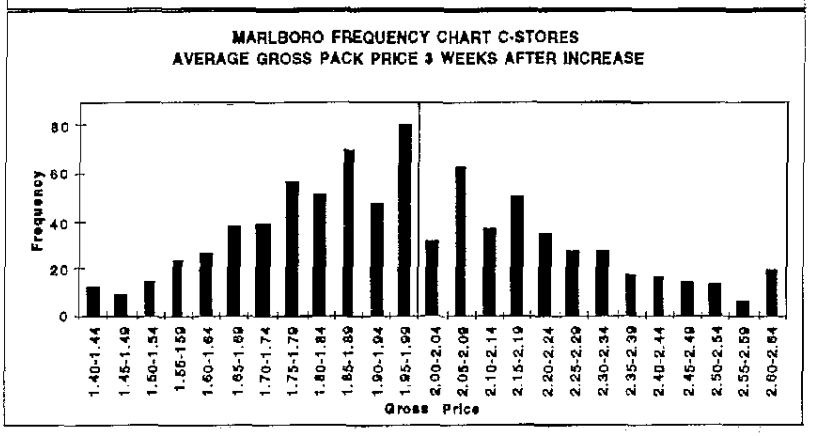
Source: https://www.industrydocuments.ucsf.edu/docs/mrcy0004

MANUFACTURER LIST PRICE INCREASES (CONT.)

- Prior to April's list price increase, the most frequently occurring gross price range was $1.85 to $1.89. Following the increase, the most common price range was between $1.95 and $1.99.
  - The most frequently occurring single price point pre and post list price increase remained at $1.99 suggesting that some retailers are attempting to remain below a $2.00 threshold.





PRICES AND GAPS

- In **c-stores**, Marlboro's <u>net</u> pack price increased +3¢ this week to $1.98 corresponding with reduced single pack money-off promotional support (-7 points versus week-ago to 22%) coupled with a partial pass through of the early April manufacturer list price increases. The Lowest Discount brand average net pack price increased +1¢ to $1.40. The resulting price gap rose +2¢ to 58¢ or 41.4%.

					Chg. vs. WAGO		4WK vs. 4WAGO	
	MARL	LOWEST DISC	$ GAP	% GAP	$ GAP	% GAP	$ GAP	% GAP
NTNL	$1.98	$1.40	$0.58	41.4%	$0.02	1.1%	-$0.01	-1.3%
R1	$2.15	$1.60	$0.55	34.4%	$0.00	-0.4%	$0.02	1.0%
R2	$1.82	$1.20	$0.62	51.7%	$0.06	5.0%	-$0.01	-0.8%
R3	$1.94	$1.36	$0.58	42.6%	$0.02	1.7%	-$0.03	-3.5%
R4	$1.95	$1.39	$0.56	40.3%	$0.01	0.4%	$0.01	0.4%
R5	$2.14	$1.52	$0.62	40.8%	$0.01	0.1%	-$0.01	-1.2%

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Source: https://www.industrydocuments.ucsf.edu/docs/mrcy0004

MARLBORO'S PRICE ADVANTAGE / DISADVANTAGE

- Marlboro's price **disadvantage** with Camel was stable this week as both brands reduced money-off support in c-stores. However, due to relative stability in Winston and Newport money-off levels, Marlboro's disadvantage with these brands increased slightly.

- Corresponding with a fall off in MBSS money-off support, c-stores where Marlboro was at a price **advantage** with Camel and Winston declined -4 and -3 points, respectively.

	% STORES WITH AN ADVANTAGE/DISADVANTAGE			
	Advantage	Avg$Adv*	Disadvantage	Avg$Dis*
Marlboro vs Any**	16%	$0.22	48%	$0.30
Chg vs Last	-5%	$0.01	2%	$0.01
4WK vs 4WAGO	3%	$0.01	0%	($0.01)
Marlboro vs Camel	11%	($0.23)	28%	$0.30
Chg vs Last	-4%	$0.00	0%	$0.00
4WK vs 4WAGO	2%	$0.00	1%	($0.02)
Marlboro vs Winston	12%	($0.22)	26%	$0.34
Chg vs Last	-3%	$0.01	1%	($0.01)
4WK vs 4WAGO	2%	$0.02	0%	($0.02)
Marlboro vs Newport	13%	($0.22)	23%	$0.26
Chg vs Last	0%	$0.02	2%	$0.00
4WK vs 4WAGO	3%	$0.00	-2%	$0.01

*Any Advantage/Disadvantage ≥ 10¢
**Any=Camel Winston or Newport

BASIC'S PRICE DISADVANTAGE

- Corresponding with decreased Basic MBSS related money-off support, incidence of Basic's price disadvantage (>10¢) with the Lowest Discount brand increased +4 points this week to 70% of c-stores.

	% STRS > 10¢	CHG VS LAST	4WK VS 4WAGO	AVG PRC DIFF	CHG VS LAST	4WK VS 4WAGO
BASIC vs. LOWEST DISC	70.0%	4.1%	0.7%	$0.32	$0.00	-$0.01
BASIC vs. GPC	50.3%	3.9%	-0.2%	$0.23	$0.01	-$0.01
BASIC vs. RJR PL	81.3%	-2.2%	0.8%	$0.36	$0.01	-$0.03
BASIC vs. DORAL	39.8%	2.5%	-1.1%	$0.25	$0.00	$0.01

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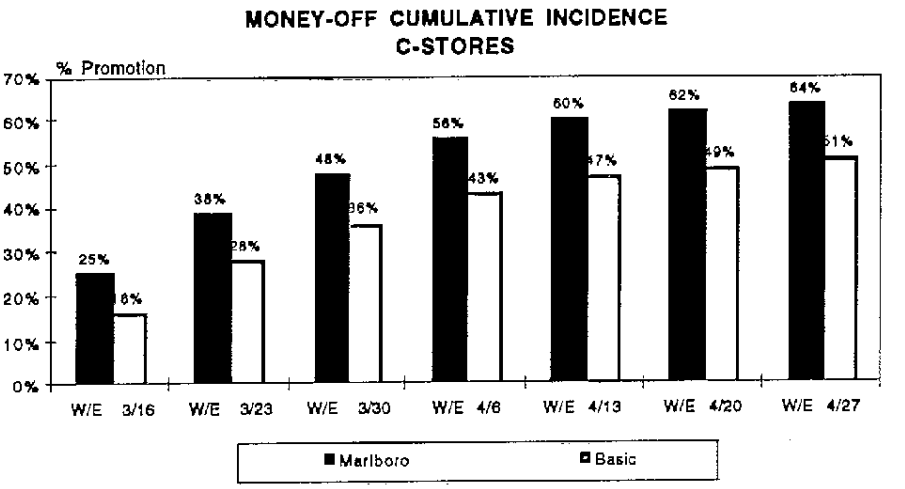
MARLBORO/BASIC SPRING SPECIAL

- Marlboro and Basic cumulative single pack money-off incidence during the MBSS period reached 64% and 51% of total c-stores, respectively.



Distribution:

R. Anise
M. Anton
V. Barrus
D. Beran
D. Berenson
G. Bible
G. Blumenson
J. Bonhomme
B. Burns
J. Chaump
N. Conrad
J. deCastro
D. DeVitre
P. Dodd
J. Dwyer
C. Enger
N. Ellis
G. Fawcett
P. Fernandez
R. Ferrin
S. Fuller
L. Funess
E. Gawronski
E. Gee
A. Goldfarb
M. Gordon
J. Greene
H. Harwood
K. Huray
A. Hyland
J. Intogna
A. Jackson
C. Johnson
L. Johnson
D. Keane
L. Larkins
T. Lauinger
K. Leger
S. LeVan
C. Levy
A. Lewis
J. Lichtman
H. Long
N. Lund
M. Mahan
J. Margolis
P. McCarthy
K. McEncroe
T. McGovern
S. Medakkar
R. Mikulay
D. Moore
J. Morgan
J. Mortensen
D. Murphy
M. Murphy
J. Nelson
E. Ng
S. Opengart
A. Padoan
P. Paoli
K. Park
S. Patel
B. Piccolino
S. Piskor
M. Platteter
L. Poole
D. Potter
S. Rafferty
T. Resman
D. Rubin
S. Rush
T. Saloun
J. Sansone
M. Salzman
R. Sarmento
M. Schroeder
B. Schuyler
A. Schwartz
B. Shah
A. Sinha
M. Slone
H. Steele
J. Steere
D. Streng
N. Suter
M. Szymanczyk
L. Theaman
J. Turner
R. Weiner
B. Weinstein
L. Wexler
B. Whitehurst
J. Whitson
K. Winkler

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